

The Economic Development and Workforce Development Systems:

A BRIEFING PAPER

Prepared for



SURDNA FOUNDATION

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PREFACE

In October 2009, the Surdna Foundation announced new programs to support its mission to help create just and sustainable communities: sustainable environments, thriving cultures, and strong local economies. To help inform its grantmaking to build strong local economies, the Foundation commissioned Mt. Auburn Associates to prepare a white paper on the current structure and challenges of the nation's workforce and economic development systems. This paper was originally presented as part of a November 9th- 10th, 2009 Board of Trustees meeting.

INTRODUCTION

Today our nation's communities are being affected by powerful trends that impact their economic health and sustainability. These trends, by now well-known, include:

- globalization of the economy, which leads to outsourcing, the movement of capital, and plant closures;
- decline in the availability of quality jobs, which is reflected in lower wages, shrinking benefits, and less permanent and secure employment;
- growing inequality in income distribution, with the top one percent of the households capturing an increasingly higher proportion of our nation's wealth;
- expansion of economic opportunity in suburban and exurban areas, at the expense of older inner-cities;
- erosion of the safety net contributing to a 75 percent increase in the number of children living in extreme poverty since 1995¹;
- demographic changes leading to a labor force with an increasing proportion of immigrants and older workers;
- growing gaps between white and minority students both in the college going rate and the degree completion rate;
- changes in work organization that is requiring more skilled workers;
- a skills mismatch, resulting both in employers having difficulty accessing the workers needed to remain competitive and a surplus of low-skilled workers in many geographic areas; and
- mergers, buyouts, and increased concentration of financial and nonfinancial corporate assets among fewer firms.

The implications of these trends for most Americans and for the communities in which they live are profound; and the recent economic crisis has only magnified them. Communities face economic uncertainty. Many individuals are concerned with their basic survival. With most economists fearful of a jobless recovery, the need for strategic and innovative action becomes imperative. Those concerned about the well-being and future prospects of poor individuals and communities are beginning to focus greater attention on jobs.

As Surdna considers its own future, and a new mission of fostering just and sustainable communities distinguished by *strong local economies*, it may seek to identify the strategies being used to help low- and moderate-income people find, keep, and advance in jobs that pay enough to support a family. It also could consider how its work can help create a sustainable and more environmentally sound economy through the creation and retention of quality jobs. What strategies can best accomplish the twin goals of helping prepare disadvantaged individuals for careers and assuring that there are adequate and appropriate employment opportunities available?

In thinking about this question, it is helpful to consider two sides of the labor market: *demand*—building strong economies that lead to employment opportunities in the private, public, and nonprofit sectors; and *supply*—developing workers with the skills necessary for the 21st century economy. Two interrelated, but distinct, fields of activity currently address these issues. Broadly speaking, labor demand issues are addressed through *economic*

development policies and programs and labor supply issues are addressed as part of the *workforce development system*.

This paper provides an overview of the how these two policy areas currently operate in the United States and summarizes the goals, the key stakeholders, the public policy environment, the primary strategies being utilized, and the major challenges that are faced by practitioners in each of these areas. The purpose is to describe the current system, not to prescribe a set of actions for Surdna to pursue, nor to evaluate the effectiveness of the current system. Moreover, it cannot cover all of the innovative activities and models currently being pursued. Understanding the current context is a first step in identifying leverage points for action as well as a strategic approach to grantmaking.

ECONOMIC DEVELOPMENT POLICY AND PRACTICE

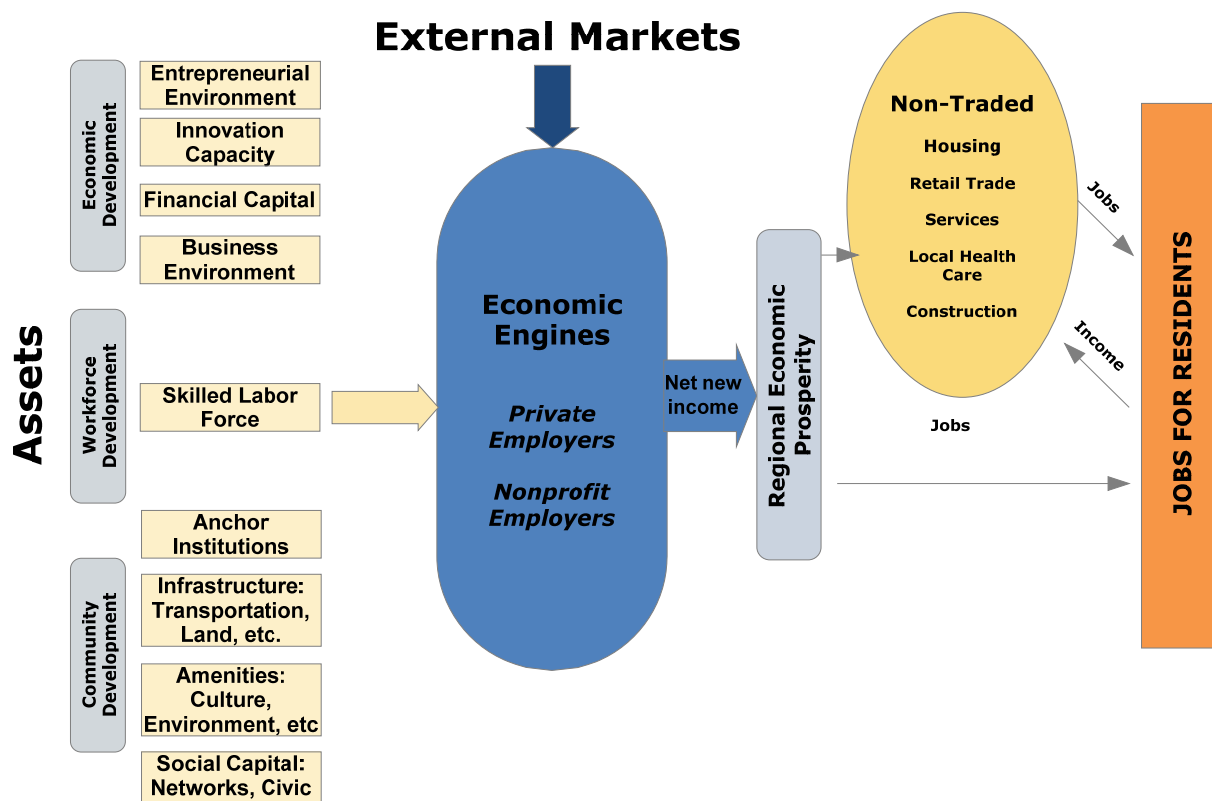
I. Economic Development Overview

Goals. The ultimate goal of economic development is to improve the economic well-being of a specific geography, typically a city, region, or state.² Historically, the primary emphasis has been on job creation via private business sector expansion. In recent decades, however, the field is increasingly concerned with building and improving the underlying *assets* that contribute to a region’s economic strength, focusing on the *economic engines*, those “traded” clusters (a geographic concentration of interconnected businesses, suppliers, and associated institutions) that sell their goods and services to external markets. Through exporting goods and services outside of a region, traded clusters import income into the region that is then circulated throughout the regional economy. This, in turn, creates the resources needed to support the “*non-traded*” industries—those parts of the economy whose market is primarily local. While non-traded activity also creates significant job opportunities for residents, the long-term vitality of this component of the regional economy depends upon strong regional economic engines. (See Figure 1.)

FIGURE 1

The Regional Economy

Simple model of how the regional economy works. In reality, the model is more circular. While we consider building all assets as part of economic development, in the field activity has been segmented into three categories of policy and program activity.



Historical Perspective. Through the 1970s, most economic development organizations focused on attracting new businesses and industries to their region (“smokestack chasing”), often an attempt to lure branch plants of large corporations. During the 1980s, the field expanded in many directions. More attention was given to the role of small firms and entrepreneurs in the economic development process, which led to state and local small business financing and development programs. Cities pursued place-based strategies, most notably large development projects and business improvement districts, to revitalize and reposition their downtowns. State governments, following the severe recession of 1980 to 1982 and the decline of traditional manufacturing, took the lead in seeding the development of new industries, primarily through technology-based “centers of excellence” programs. Such programs sought to spur innovation and leverage the research and technology assets of universities. These economic development actions have endured in the field and have widened the strategies and tools employed. In the past decade, new attention is given to developing economies through clusters of related industries and on retaining and growing the region’s talent base. These are considered to be critical to create and maintain vibrant economic regions in the 21st century.

Geographic Focus. Economic development organizations and programs operate on all geographic levels, from neighborhoods to multi-state regions. The majority of activity is built around governmental units at either the municipal (town, city, or county) or state level. Economies, however, do not operate or develop around political boundaries and this poses a challenge — most economies are integrated in metropolitan areas, which include extensive workforce and transportation systems and a network of suppliers and services. Many rural economic development organizations operate regionally; unfortunately, political and institutional barriers make strong regional economic development institutions difficult to establish and sustain, especially those in proximity to urban regions.

II. Who are the Key Players in Economic Development?

The economic development field is rather complex with no one agency charged with planning and coordinating economic development services. This is probably due to the ambivalence, particularly at the federal level, in intervening in the private marketplace. Programs operate across multiple agencies at the federal, state, and local levels.

Federal. *The Economic Development Administration (EDA)*, part of the U.S. Department of Commerce, is the federal agency formally charged with supporting and funding regional economic development. Some of the funding is through EDA designated regional Economic Development Districts, however, these organizations are not found throughout the U.S. and tend to be more prevalent in rural communities. EDA provides grants for planning to create regional strategies (Comprehensive Economic Development Strategies), which are required to receive EDA funds. In addition, EDA funds a wide range of economic development-related programs and projects at the state, regional, and local levels including land use-related development, economic adjustment assistance, and a Trade Adjustment Assistance program that focuses on firms impacted by trade-related factors. Its small annual appropriation has been around \$300 million in recent decades.

As one might expect, beyond the EDA, the federal level presents an alphabet soup of entities that provide resources. (See Figure 2.)

FIGURE 2**Federal Funding Related to Economic Development**

| Agency | Programs | Target |
|---|---|---|
| Department of Housing and Urban Development (HUD) | Community Development Block Grants | Projects benefiting low- and moderate income individuals |
| The Small Business Administration (SBA) | Direct Loan and Guarantee Programs Small Business Development Centers Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) | Small Businesses |
| Department of Health and Human Services (HHS) | Office of Community Services Community Economic Development Job Opportunities for Low Income Individuals (JOLI) | Grants for community corporations targeting low-income individuals Nonprofit institutions focusing on job creation for individuals living below the poverty level |
| National Science Foundation (NSF) | Provides funds for Science and Technology Centers (STC) The Industry/University Cooperative Research Centers (I/UCRCs) Engineering Research Centers (ERCs) | Universities Industry/University/Government Partnerships |
| Department of Commerce National Institute of Standards and Technology (NIST) | Manufacturing Extension Partnership Technology Innovation Program | Manufacturers University, consortia, and industries involved in research and technology |
| Department of Commerce Minority Business Development Agency (MBDA) | Minority Business Enterprise Centers (MBECs and NABECs) | Minority entrepreneurs and businesses |
| Department of the Treasury | Community Development Finance Institution Fund New Market Tax Credits | Community Development Finance Institutions Firms and development projects in low-income areas |
| Department of Agriculture | Rural Development Business and Cooperative Programs (BCP) and Business Program The Community Development Program (CDP) | Businesses and community in rural regions Rural communities |
| Department of Energy | Loan Guarantee Program State Energy Programs Technology Transfer related to DOE Federal Labs Office of Energy Efficiency and Renewable Energy (EERE) | Eligible projects related to commercializing renewable energy and to modernize the grid Funds can be used for a range of economic development efforts including revolving loan funds for energy businesses Business Higher education/government/business |

State. State governments are major players and investors in economic development. State economic development agencies often are charged with formulating a state economic development strategy; marketing the state to attract new businesses and investment; assisting existing businesses to access resources to grow and thrive (e.g., permits and finance for expansion training for incumbent and new workers); assisting firms with exporting and conducting business overseas; providing grants for local economic development projects and programs; and, in some cases, providing direct financing to firms and projects.

Many states also have quasi-public organizations that provide gap financing to firms and development projects and also undertake large-scale projects (e.g., military base reuse, large scale urban renewal). Some state and local

port authorities are active in economic development through associated real estate development, financing, and international trade assistance. States also promote technology-based economic development through innovation and centers of excellence programs as well as via the research and development assets and technology commercialization policies of state universities.

Regional. Regional economic development organizations tend to focus broadly on building the region's economic assets, marketing the region, and supporting business growth and competitiveness. Regional scale economic development organizations include:

- economic development partnerships between business and government that market the region and attract new investment;
- regional planning agencies that may be involved in business finance, transportation, real estate development, workforce development, and regional fiscal issues;
- private sector civic organizations involved in economic development through planning, policy advocacy, and financing;
- regional CDFIs and economic development finance organizations, in some cases also including associated entrepreneurial and business development services, which cover a multi-county, state, or multi-state region (e.g., The Reinvestment Fund, Cascadia Revolving Loan Fund, Pacific Coast Venture, and Coastal Enterprises); and
- regional chambers of commerce that have economic development programs or an affiliated economic development corporation with a city or regional focus.

Local. In general, at the local level, economic development tends to be more “place-based,” with a focus on land use issues related to businesses, downtown and commercial district development, and working with anchor institutions. Most local governments with populations of over 50,000 have economic development departments or corporations that provide some combination of business attraction, permitting assistance, business financing, and real estate development (e.g., industrial and office parks, redevelopment/urban renewal, small business incubators). Many large cities also initiate planning and development programs for new or for the redevelopment of key areas of the city that have suffered extensive disinvestment. For example, programs might be created for brownfields redevelopment or to support neighborhood scale economic development by revitalizing commerce, assisting small businesses, and/or developing neighborhood commercial real estate development.

Neighborhood Organizations. Some organizations focus on neighborhood or sub-city scale economic development, typically small business development and commercial district revitalization. These include community development corporations with economic development programs, business improvement districts, nonprofit Main Street organizations, and some business, neighborhood, or civic associations.

Anchor Institutions. Colleges and universities, hospitals, large arts and cultural institutions, and other major nonprofit institutions are critical economic development assets for cities and regions. Some of these institutions have explicit economic development activities, such as research parks, business incubators, and small business development centers. Those without formal economic development activities, nevertheless, contribute significantly to an area's economic development through workforce and talent development, innovation and technology development, anchoring investment and activity to spur reinvestment and business activity, and providing valuable amenities.

Foundations. Regional funders, in particular community foundations and corporate foundations, have been key players in regional economic development efforts. These funders are often critical outside “conveners” in their community and have supported public-private partnerships that have focused on a wide range of economic development strategies. Examples of regional foundations with a strong economic development focus include The Heinz Endowments in Pittsburgh and the multiple funders involved in the Fund for Our Economic Future in Northeast Ohio. While there are some national foundations that have focused on specific economic development strategies (i.e., the entrepreneurial focus of the Kaufman Foundation), for the most part, the national funders have

not been major players. Over the past few years, however, the Ford Foundation Fellowship for Regional Sustainable Development has supported a learning and peer support effort by the American Chamber of Commerce Executives that has helped to strengthen regional economic development activities in many communities.

III. What are the Primary Strategies Used for Economic Development?

Most economic development efforts have employed the following strategies:

Traded Sector Cluster Development. This strategy supports the competitiveness and growth of interrelated firms in economic clusters that are central to an area's economy, that have strong growth prospects, and/or that provide good quality jobs or jobs for a target population. Activities include: (a) developing cluster organizations; (b) creating specialized cluster services around finance, job training, research and development, and exporting; (c) marketing and gaining recognition of the cluster for policy and business attraction purposes; and (d) advocating for supportive regulatory and public policies. Promoting the life sciences cluster has been a major area of focus in many major cities. There is growing interest in many localities in supporting alternative energy or other so-called "green"-related clusters and clusters of creative or cultural industries.³

Innovation Promotion. This strategy leverages and enhances those area assets that support innovation. Activities include: (a) funding technology development and commercialization "centers of excellence" of specific technologies; (b) funding industry-university partnerships to commercialize existing technologies and/or undertake applied research to support key industry needs; (c) creating university/research center technology, licensing policies, and specialized entities that promote private sector commercialization; and (d) providing funding and technical assistance to support business' use of federal research and development programs. There is also increasing interest in the application of design to competitiveness and the role of creativity in the innovation process.

Business Climate and Marketing. The goal of this strategy is to improve the recognition, perception, and environment of an area for business investment and growth. This may occur through advocacy to change policies affecting business costs. It may also occur through marketing a region to attract new investment as well as creating site finder databases and services to help firms and consultants locate and evaluate sites for new facilities.

Talent Retention/Attraction. This strategy ensures and nurtures the human capital assets. It is based on the growing evidence that firms will go where the most talented and skilled workers are located and that talented people are the ones who start successful businesses. Emerging efforts include: (a) creating programs to retain college graduates in an area through internships, mentoring, and career development efforts with local employers; (b) fostering networking among young professionals; (c) improving housing options and amenities desired by young talented professionals; and (d) focusing on developing amenities (environmental and cultural) that are attractive to knowledge workers.

Entrepreneurial Development and Small Business Support. This strategy supports the creation and growth of new and small businesses as a critical engine for economic development and job creation. Activities include: (a) training and technical assistance on how to start a business; (b) training and technical assistance on business management issues; (c) mentoring programs; (d) creation of entrepreneurial support networks; (e) small business incubators that combine space, shared services, and mentoring for new businesses; (f) financing targeted to start-up businesses through microloan and seed capital funds; and (g) programs for small, minority businesses, such as small business set-asides, and vendor development. An area of growing activity has been in promoting and supporting entrepreneurship and small business development amongst immigrant groups.

Commercial District Strengthening and Revitalization. This strategy seeks to expand neighborhood business and employment opportunities as well as improve the image, amenities, and quality of life in disinvested neighborhoods by creating revitalized and strong commercial districts. Activities include: (a) efforts to coordinate and manage a commercial district; (b) public safety initiatives to address real and perceived crime; (c) facade, cleanliness, and physical improvements to make the area more attractive and improve its image; (d) events

and marketing plans to improve the district's image and strengthen the district's role as a community center; and (e) real estate development and business recruitment to reuse vacant properties, bring new businesses to the district, address key retail/service gaps, and strengthen existing business niches.

Development Finance/Community Development Finance Institutions. This strategy seeks to expand the supply of capital and address capital market gaps to finance business start-ups, expansions, real estate development, and community facilities. Activities include: (a) offering revolving loan funds and business finance programs within existing economic development agencies; (b) creating a community development financial institution or separate quasi-public agency that can raise and manage capital to address an area's financing needs; (c) instituting regulations or incentives for private investment to address capital gaps (examples include: tax incentives for investment in local venture capital firms, linked deposit programs that target public sector deposits, and financial services to institutions that address local banking service and credit need); and (d) organizing and advocacy for bank services and lending for economic and community development in low-income communities.

Business Retention/Business Competitiveness. Business retention involves providing a range of services to existing employers to help them remain more competitive and retain employment in the community. State and local economic development organizations have come to realize that retaining the existing jobs in their communities is at least as important as trying to create new jobs. A range of tools has been utilized to reach out to local employers to identify challenges that they are facing and to provide support services to address these challenges. Outreach often takes the form of business calling and using data analysis to identify at-risk firms. Services often involve referrals to a wide variety of business assistance services and incentives. Specialized programs, such as the national Manufacturing Extension Partnerships, provide specialized training and support to help the nation's manufacturers remain competitive. Finally, technology transfer programs have sought to utilize the resources of universities to solve business problems.

Targeting Benefits and Ensuring Accountability. For the most part, there is not a great deal of focus in economic development on whom is getting the jobs being created, nor the quality of the jobs being created. However, there are some exceptions. For example, at the federal, state, and local levels some public contracts involve set-asides or preferences for minority businesses, women-owned businesses, or businesses of a certain size. Community benefit agreements (CBAs), typically negotiated at the local level around specific development projects, usually require set-asides for the local community as well as hiring targets for local residents. There are also broader public policies that may seek to ensure more accountability associated with development projects or economic development incentives. For example, some states and cities have "clawback" clauses that involve some type of penalty if proposed economic benefits are not achieved. Other communities negotiate "first source agreements" requiring businesses benefiting from economic development financing or incentives to target employment opportunities to low- and moderate-income residents.

IV. What are the Key Challenges Facing Economic Development?

The field of economic development faces several pitfalls and challenges that hamper overall impact and the capacity to improve the well-being of low- and moderate-income individuals and communities. Some of these key challenges include the following.

The Next "Silver Bullet." Many cities and states are tempted to invest in very risky, large-scale, high visibility, "brick and mortar" projects. These so-called silver bullet projects often include casinos, convention centers, stadiums, and large downtown commercial projects. Such projects, while highly visible and usually able to garner political support, do not address the fundamental problems of large-scale disinvestment, middle-class flight, concentrated poverty, and the attendant fiscal stresses plaguing many cities. In contrast, the types of long-term investments that are needed for more sustainable economic development activity often do not attract the necessary political support.

Lack of Strategic Thinking. There is a strong tendency in the economic development field to follow the latest fad without a strategic understanding of its appropriateness to that community. There are many examples of this challenge. Almost every major metropolitan area thinks that because it has a major healthcare institution it can have a competitive biotechnology cluster. Richard Florida's work on the "creative class" has led to a proliferation of talent attraction strategies, often without a realistic understanding of the regional demographics and position of the community in competing for the younger demographic. Finally, while there is widespread talk about green jobs in the economic development field, few regions have looked strategically at their assets and competitive strengths in growing this type of industry.

Public Subsidies to Influence Locational Choices. The primary way in which the public sector, particularly states, attract and retain businesses is by using a range of incentives and other public subsidies. They do this in spite of the fact that considerable evidence indicates that such subsidies do not significantly influence firm behavior and that even if successful the costs may outweigh the benefits. Many studies have shown that the decision by firms about where to invest is complex, with tax-related costs often not the overriding issue. Moreover, for firms that are going to make decisions based upon low costs, many global locations are more competitive than even the lowest cost location in the U.S.

Parochialism. For many public officials, economic development is primarily about generating new tax revenues in their community. While the growth of an employer might mean new jobs for residents of a larger region, the fiscal benefits will accrue to only one city or town. As a result, there are disincentives for municipalities to work together on economic development.

Institutional Capacity. Many economic development organizations, especially at the neighborhood and municipal levels, are small with only one or two staff. Consequently, they lack capacity to implement effective programs, to form partnerships, to provide the range of activities required to be effective, or to grow their programs significantly and have impact. One example is the proliferation of local and nonprofit revolving loan funds, most of which have less than \$1 million in capital and make less than 20 loans per year.

Benefits to Low- and Moderate-Income Residents. The economic development field historically has focused on business growth and job creation without concern for who is employed, the quality of the jobs, and who benefits from this growth. Aside from some progressive local governments and the CDCs and CDFIs, reducing poverty and expanding the employment, assets, and earnings of low- and moderate-income people have not been a concern of the field.

Environmental Sustainability. While there is now a flurry of interest in the interplay between the environment and economic development, the field has not typically concerned itself with the land use and environmental impact of how and where new economic development occurs.

Dominant Business Agenda. With their focus on business growth and the needs of the private sector, economic development practitioners and organizations often align their thinking with the business community. This can lead to an emphasis on policies to reduce business costs at the expense of public investment; viewing environmental regulations and concerns as anti-economic development; and ignoring the important role labor unions can play to improve the quality of jobs and worker incomes and the value of labor-business-community partnerships to sustain a region's long-term competitive and economic well-being.

WORKFORCE DEVELOPMENT THEORY AND PRACTICE

I. Workforce Development Overview

Goals. With a jobless recovery and unemployment rate hovering at about 10 percent, governments and organizations have given considerable attention to projects and programs that will create new jobs and ensure that people are not being trained for jobs that do not exist. Yet, even in this economy, jobs go unfilled because individuals lack the skills needed to obtain them. In fact, many experts wonder whether this “skill gap” will constrain long-term employment growth. Concerns about the long-term competitiveness of the U.S. economy and about the relationship between skills and family-sustaining jobs have resulted in considerable attention on educating and training; that is, paying attention to the nation’s workforce development system.

Few people question the seriousness of our workforce-related problems.

A significant number of adults in the U.S. labor force lack the basic skills needed to succeed. Eighty-eight million Americans have at least one educational barrier, such as no high school degree, deficient English language skills, or no postsecondary training; 30 million score below basic literacy skill levels; and an additional 63 million can perform only simple literacy tasks.⁴ Many of the nation’s dislocated workers are finding that their skills are not at the level needed to access the jobs that remain or the new jobs being created.

Moreover, the pipeline of new workers is very “leaky.” A large proportion of our young people continue to drop out of high school. In 2007, 6.2 million individuals between the ages of 16 and 24 dropped out of school. For some groups, the proportions are staggering—27.5 percent of Hispanics and 21 percent of African-Americans in this age group have dropped out of school.⁵ Moreover, many who do earn a high school diploma are not prepared for postsecondary education. Current estimates are that 58 percent of two-year college students must take at least one remedial class.⁶ Finally, a large number of students who do make it to college never graduate. For example, only 27.8 percent of students entering community colleges graduate within three years.⁷ A recent study in Boston found that only 35 percent of Boston Public School graduates who had entered college earned a degree after seven years.⁸

Those individuals who are falling through the cracks face a bleak economic future. The percentage of the workforce requiring some college or above grew from 28 percent in 1973 to 59 percent in 2007 and is expected to increase to 62 percent by 2018.⁹ Moreover, it will be virtually impossible to achieve a family-wage job without some type of postsecondary training. Today, the average wage for someone with less than a high school diploma is \$426 a week compared to \$736 a week for someone with an associate’s degree.¹⁰ And, in November 2009, the unemployment rate for individuals with less than a high school diploma was 15 percent as compared to only 7 percent for those with an associate’s degree and 4.9 percent for those with a bachelor’s degree or higher.¹¹

These workforce-related issues are becoming more and more critical due to changing demographics.

In 2008, approximately 15.6 percent of the civilian labor force was foreign born and 26.4 percent of foreign born individuals over the age of 25 did not have a high school degree.¹² The U.S. Department of Labor is projecting further growth in the diversity of the workforce. For example, in 2018, Hispanics alone are projected to account for 17.6 percent of the labor force as compared to only 14.3 percent in 2008.¹³ There is also concern that the retirements of those in the Baby Boom generation, while potentially delayed due to the recent economic crisis, may lead to significant workforce-related skill shortages.

In short, the economic future of many individuals, not to mention the economic competitiveness of our country, is at risk unless we are able to enhance the skills of our residents.

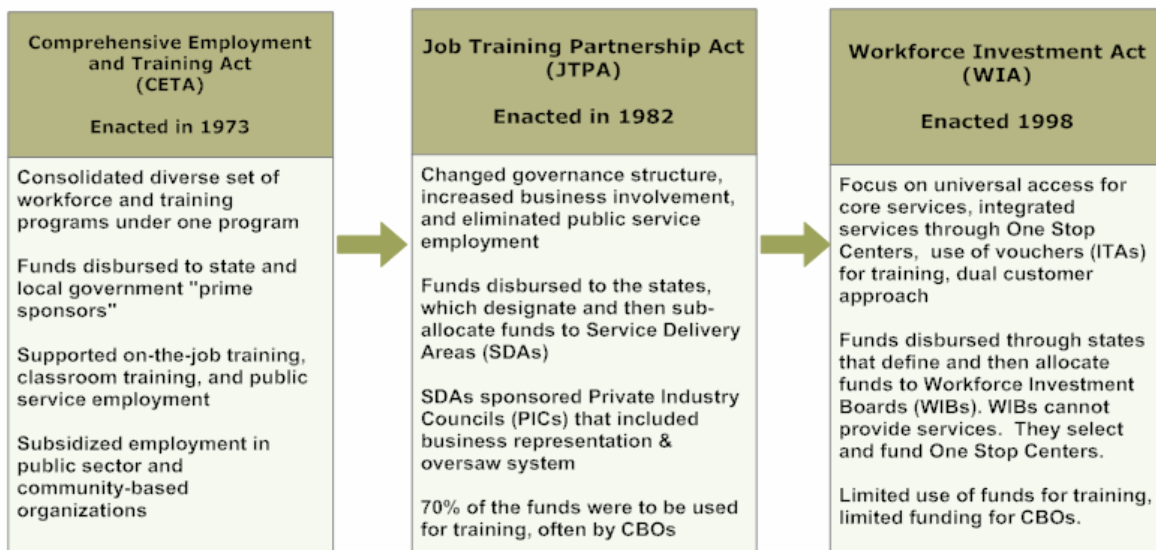
At its most basic level, the goals of workforce development are to address these difficult challenges and create an effective system that ensures that residents have the skills needed to attain and keep family sustaining employment and that employers have access to the skilled workforce needed to remain competitive.

The System. There is no clear consensus on what is the workforce development “system.” Many think in a relatively limited way and focus on the federal funding stream that directly supports workforce training. Others think more broadly and include “*all of the public and private investment and activities undertaken to ensure that individuals both are employable and have jobs and, simultaneously, to ensure that companies can find and develop the skilled workforce they need to be successful in the world marketplace.*” (*Corporation for a Skilled Workforce.*)

Historical Perspective. Federal policy to support the workforce and training needs of the nation’s disadvantaged and dislocated individuals has evolved considerably from its earliest inception, the Manpower Development and Training Act of 1963 (MDTA), to the current system as defined by the Workforce Investment Act (WIA). Major changes have included how the system is governed, the role of business in the system, and the types of services being supported. Most importantly, in terms of the system’s current status, the total funds for workforce development have declined significantly. A recent study estimated that federal funding for workplace training in real 2003 dollars declined from \$27 billion in 1981 to \$3 billion in 2007.¹⁴ In 2009, total funding for the WIA system was about \$3.2 billion. The shift in focus from preparing the workforce for jobs through training and skill development to an emphasis on job placement, regardless of the quality or appropriateness of those jobs, is another critical shift in the evolution of the system. (See Figure 3.)

FIGURE 3

Evolution of Federal Workforce Development Policy



II. Who are the Key Players and Programs in Workforce Development?

Federal

The Federal Workforce Investment Act (WIA), enacted in 1998, is the foundation of the nation's workforce development system. It provides services for adults, dislocated workers, and youth between the ages of 14 and 21. Some of the core principles of the WIA include the following:

- *Universal Access:* Unlike in the past, the WIA system is not targeted to low-income and disadvantaged individuals, but is by design open to any individual needing employment-related services.
- *Dual Customer Approach:* The WIA system considers both businesses and individuals as “customers” of the system. The system has a “business services” component that is intended to help businesses address their workforce needs.
- *Integrated Services through One-Stop Centers:* WIA requires the establishment of One-Stop Centers and, to that end, designated 17 mandatory federal partners that were supposed to help provide integrated services to individuals. In practice, mandatory partners have provided minimal support for the One-Stop Centers. Local Workforce Investment Boards (WIBs) select the operator of a center through a competitive process or designate a consortium of not less than three One-Stop partners to operate the centers. Funding the “infrastructure” costs of these centers is a serious challenge in the system.
- *Workforce Investment Boards as Regional Intermediaries in the System:* WIA money flows through the states according to a formula. Each state designates a State Workforce Investment Board, appointed by the governor, to oversee the system, develop state performance measures, establish local workforce investment areas, develop allocation formulas, and design procedures for certifying training providers. Funds from the state then flow through regional WIBs, which are responsible for developing a local plan, selecting and entering into agreements with mandatory partners, identifying eligible training providers, developing a budget and administering grants, overseeing the system, and reporting on performance measures. Under WIA, the WIBs are prohibited from providing services to participants; they contract out for these services.
- *Job Attachment rather than Training:* Services at One-Stop Centers are divided into three categories: (1) Core Services—access to job listings, information on careers, and job search assistance; (2) Intensive Services—case management, assessments, access to workshops, and development of individual employment plans; and (3) Training—aimed at individuals who have not found viable employment through core and intensive services. The vast majority of users of the system are involved in core services, which are usually self-directed. Any funding for training is disseminated through vouchers, (Individual Training Accounts, or ITAs), which individuals can use at certified training institutions. WIBs have discretion about how much to spend on training, so the amount of training provided varies significantly across the country.

WIA expired in 2003 and since that time Congress has continued to appropriate funds on an annual basis. For the past few years, the federal government has considered reauthorizing WIA. Many in the workforce development field are interested in seeing WIA changed to give greater emphasis to training as well as other reforms in governance. Currently, reauthorization is on hold, and disagreements among the interested parties are likely to delay the much-needed reforms to the system.

While WIA provides the basic framework for the federal workforce development system, the actual funding through WIA is only a small portion of the total federal funding for education and training services. Figure 4 shows most of the federal departments and funding streams that support workforce development. Each stream has its own set of restrictions and limitations, creating, what many complain, is the “siloe” nature of the system.

FIGURE 4

Additional Federal Funding Related to Workforce Development

| U.S. Department of Education | U.S. Department of Labor | U.S. Department of Agriculture | U.S. Department of Health & Human Services | U.S. Department of Housing and Development | U.S. Department of Energy |
|---|--|---|---|--|---|
| <p>Adult Education funding for adult literacy distributed to states on formula basis</p> <p>Pell Grants provide financial aid for low-income students</p> <p>Carl D Perkins Act funds vocational training post-secondary educational institutions</p> <p>Vocational Rehabilitation state grants for training for the disabled</p> | <p>Wagner-Peyser funds support employment services such as job search and job referral</p> <p>Competitive grants such as WIRED, Regional Innovation Grants, etc.</p> <p>Trade Adjustment Assistance helps workers displaced due to import-related layoffs or closures</p> | <p>Food Stamp Education and Training (Now SNAP- ET) provides funding for training for eligible food stamp recipients</p> | <p>Temporary Assistance for Needy Families (TANF) state block grants that replaced welfare & provides support for training with significant limitations</p> <p>Social Service Block Grants to states could be used for limited education and training services</p> <p>Community Service Block Grants to CAPs agencies could be utilized for education and training</p> | <p>Community Development Block Grants to cities could be utilized for education and training services for low-and-moderate income individuals</p> | <p>Green Collar Job Training through 2007 Green Jobs Act including Pathways Out of Poverty program for low income individuals</p> <p>Energy Efficiency and Conservation Block Grant Program (EECBG) can be used for workforce development</p> <p>State Energy Program (SEP) funding can be utilized for education and training</p> |

State Government

Although most of the funding for workforce development originates at the federal level, the use and distribution of the funding to individuals and businesses is decided primarily at the state and regional levels. The amount of integration between the WIA system and other federal and state workforce-related programs varies significantly both across and within states.

Beyond the federal funding streams, many states also have their own funding streams that are relevant to the workforce development system. States most often use such funds for customized training programs for businesses, incumbent worker training, sector workforce training, or career pathway activities. Some states, such as California and Massachusetts, fund some of this activity through a special surcharge on the unemployment insurance rate charged to businesses. Other states utilize their general funds (e.g., Minnesota) or bonding authority (e.g., Iowa) to raise resources for this purpose.

Perhaps the most significant role of the states in workforce development is funding their K-12 and higher education systems. States play a critical role in the educational pipeline, from pre-school to the public postsecondary systems. Within this broad pipeline, community colleges, in particular, are seen as central to the workforce development system. Community colleges often serve nontraditional students through their degree and certificate programs and are often involved in efforts to provide training for “middle skill” jobs (those requiring more than secondary school but less than a bachelor’s degree). The role of community colleges, their governance, and the level of funding differ significantly from state to state.

Regional and Local

As noted, the Workforce Investment Boards are designed to be regional workforce intermediaries. Thus, unlike the economic development system, there is a formalized institutional structure in place in the workforce system that operates regionally and conforms, to some degree, to labor markets. However, states define the geographical

boundaries of the WIBs. A few states have only one statewide WIB (e.g., New Hampshire), while others (e.g., Indiana) have consolidated the WIBs so that they operate in a very large geographical area.

In terms of local government, the most significant role it has is in overseeing the K-12 educational system. Of particular relevance to the workforce development system is its role in supporting vocational and technical high schools. These schools emphasize hands-on learning and career training. There is wide variation across the U.S. in how these schools are funded, as well as their governance structure and their geographic scope. In some communities, vocational education is provided as part of large, comprehensive high schools. In others, there are larger, regional vocational high schools that span a number of school districts and provide specialized occupational training. In many large, urban districts, the focus has been on creating specialized “career academies” that are sometimes structured as small, learning communities within a larger high school.

Beyond the K-12 education system, cities and towns play a very limited role in workforce development. In some states, the chief elected officials of the major cities play a role in how WIA funds are used. Beyond the flow of WIA funds, only the larger cities play any significant role in the workforce development system. For example, New York City plays a major role in postsecondary education through the CUNY system. Some cities have developed their own workforce development programs by using linkage funds (developer payments tied to real estate projects). In Boston, developers are required to pay into both a Neighborhood Jobs Trust (NJT) and Housing Trust. The NJT uses the linkage fees to connect residents with adult education, English as a Second Language (ESOL) services, and job training. Cities may also use some of their Community Development Block Grants for specialized education and training services. For example, Portland, Oregon, is using CDBG funds to provide support services to help low-income residents succeed in career advancement programs.

Other Players

Beyond the public sector, thousands of **nonprofit community-based organizations** and **social service organizations** provide workforce-related services to their constituencies. These services range from conducting outreach, screening, and assessment of program participants; running adult literacy and ESOL classes; operating training programs; and providing case management and career coaching for low-income individuals. The capacity of these organizations varies significantly, as does their relative importance in various cities.

In terms of postsecondary training, as noted, the **community college system** is frequently defined as a major player in the nation’s workforce development system. Other four year colleges and universities, both public and private, offer relevant specialized certificate and degree programs. These higher educational institutions also provide a range of specialized training services to employers. Large, national **distance learning institutions**, such as the University of Phoenix, are also playing an increasingly important role in offering degree and certificate programs that are more readily accessible by nontraditional students. In addition, there are a large number of **private proprietary schools** throughout the U.S. that offer specialized vocational training. These for-profit schools, minimally regulated by states, have a mixed record. There is considerable concern about their overall outcomes given the high default rates on loans taken out by their students.

Unions have historically been important players in the workforce development system, most notably in the construction trades through apprenticeship programs. Some unions continue to be key stakeholders directly through their training role. For example the AFL-CIO Building Construction Trades has 1,100 training centers across the U.S. that are funded by unions and employers. Workforce development activities of unions also take place through affiliated organizations established as a result of negotiated training funds. For example, New York’s SEIU Local 32BJ is taking a lead role in green jobs training, and SEIU 1199’s Training and Upgrade Fund is an important player in healthcare sector training program in many communities. In Boston, UNITE HERE! Local 26, a union representing 5,000 hospitality workers, has created a training fund to provide the skills needed for career advancement amongst its members.

Finally, **both national and regional foundations** are strong supporters of particular components of the workforce development system. Regional funders have played a very critical role in supporting the work of community-based and nonprofit organizations that want to provide employment-related services to low-income residents. Increasingly, both national and regional funders have been supporting workforce and training activities that are targeted to specific sectors. Most noteworthy are the national funders, including the Annie E. Casey Foundation and the Ford Foundation, which have formed the National Fund for Workforce Solutions (NFWS) to invest in workforce-related collaboratives in communities around the country. In addition, several national funders are playing a strong role in improving access and success in postsecondary education. For example, MetLife, Ford, Lumina, and Gates have all funded major initiatives focused on the nation's community colleges.

III. What are the Primary Strategies Used for Workforce Development?

Traditional workforce development strategies include pre-employment training and job placement that help low- and moderate-income individuals access employment; occupational training through certificate and degree programs; and incumbent worker training and retraining, often undertaken in collaboration with employers. Beyond these approaches, much workforce development activity in the U.S. focuses on the skills gap and on promoting changes in funding and delivering services. Following are some of the major areas of strategy currently being pursued.

System Change/Reform. Given the issues facing the WIA system and the multiple silos that support workforce development, considerable interest is being given to creating a more effective workforce system that aligns multiple sources of funding and programs and that builds system capacity. Strategies to promote system change have included public policy advocacy efforts at both the federal and state levels, as well as considerable research, particularly into best practices. As noted above, attention is being given to the reauthorization of WIA at the federal level. Several states and WIBs are also trying to find ways to create a more integrated and effective system within the context of the current federal system. States have established task forces to improve how adult education and workforce development efforts can work together; have promoted increased training, particularly for so-called “middle skill jobs”; and have been trying to improve the effectiveness of the WIBs and One-Stop Centers in their states. However, the deep “cultural” barriers within the public system, higher education, and community-based organizations often impede system change.

Sector Workforce Development. In the past, most workforce development activities have focused on occupations and have rarely involved employers. The current trend, however, is a dual customer approach. This approach focuses on specific sectors of the economy and tries to create a “win-win” by providing both family-wage jobs for low- and moderate-income residents and a more skilled workforce for employers. These sector workforce efforts often involve multiple employers within an industry, are led by a workforce intermediary with credibility in the industry, and attempt to create new pathways for low-income workers in that industry. Tools used in this strategy include coaching (case management, career development, and academic), pre-college and remedial training, and occupational training. This work has been supported by national funders and has led to the development of new organizations such as the National Network of Sector Partners, a nationwide membership organization, and the National Fund for Workforce Solutions. A large proportion of the sector workforce projects has focused on the healthcare sector. Currently, interest and support are growing for sector workforce projects focused on green jobs.

Standards and Credentials. Most occupations in the United States lack clear standards or certification of skills. In contrast, many other countries have developed national standards for a wide range of occupations and use apprenticeships to ensure that individuals have the skills required for a specific occupation. Fortunately, there are currently both state and national efforts to develop new standards and a new approach to credentials. At the national level, the new National Work Credential is intended to provide a universal, transferable, national standard for work readiness. Both Ohio and Minnesota are focusing on creating state-level “stackable credentials” for low-skilled adults that integrate adult literacy, non-credit occupational training, and credits for postsecondary degrees.

Many states are also seeking to ensure that public funds used for education and training result in the attainment of a degree or certificate relevant to job placement.

Career Ladders/Pathways. Related to credentialing and sector strategies is the broader strategy focusing on career pathways. This strategy often involves mapping out likely career advancement paths in a particular industry or occupation, and helping individuals access the education and training they need to advance. Also included here is aligning programs across academic institutions, providing educational skills that are contextualized to a specific employer or industry, and providing a range of support services, such as career coaching and case management, which can help individuals advance.

Educational Pipelines. At both the federal and state levels, there is increased focus on the full educational pipeline—ensuring that the entire system is geared towards helping students progress successfully from kindergarten through college. Many states and regions have formed P-16 (or K-20) task forces that try to plug many of the leaks in the system—such as high dropout rates—and better align the multiple levels of education. Tools and strategies include dual enrollment in high school and college, early college programs, public awareness efforts, aligning secondary and postsecondary requirements, and a renewed focus on college success. Multiple pathways efforts, such as those supported by the Irvine Foundation in California, integrate academics with career and technical education and work-based learning at the secondary level.

Postsecondary Education and Training. Improving access to and ensuring success in postsecondary education has become a major strategy throughout the country. While most of this activity focuses on community colleges, it could also include the full range of occupational credential programs through proprietary schools, industry associations, distance learning, and four-year higher educational institutions. Tools include policy and financial aid system reform, new accountability mechanisms, remediation, student support services, and efforts to promote institutional culture change.

IV. What are the Major Challenges Facing Workforce Development?

Skill Levels. As previously noted, the skill levels of a relatively large proportion of the adult population of the United States are low. Many lack a high school degree, and many who have completed high school lack the minimal level of literacy and numeracy skills required for admission to college or to vocational training programs. The low level of skills and English language proficiency for the growing number of immigrants in the labor force is a particular skill-related challenge. The result is that it can take a very, very long time for lower-skilled individuals to advance along any career ladder leading to a family-wage job. Consequently, the greatest challenge in the workforce system today is developing effective remedial education, developmental education, and bridges to college programs that can help low-skilled individuals quickly achieve the basic competencies needed to qualify for postsecondary education or occupational training programs.

Effectiveness and Efficiency of the Public System. In many ways, the current workforce system is no system at all. As described earlier, it involves a wide range of federal and state funding streams with limited alignment, lack of common standards, and minimal accountability. Declines in federal resources and fiscal stress at the state and regional levels have created significant resource challenges. This is compounded by the fact that the current system does not provide sufficient support for training.

Financial Aid for Postsecondary Training. The current federal system for student financial aid is problematic in terms of workforce training. Most resources continue to be directed at traditional students. Part-time students have limited access to financial aid, Pell grants cannot be used for non-credit courses, and eligible programs must meet threshold requirements.

Capacity of Training Providers and Community-based Organizations. A significant number of pre-employment programs, pre-college training, and remedial education are being provided by organizations with

limited capacity. As a result, there are quality, quantity, and other issues plaguing the effectiveness and scale of these services.

Career Literacy. One of the often ignored challenges in the workforce system is that many Americans have limited understanding of career pathways and opportunities. Information sources on careers, competencies needed, and training availability are not consistently accessible. More importantly, many individuals and their families do not fully grasp the imperative for postsecondary training in the current economy.

Employer Investment and Engagement. In reality, employers are the most important actors in the workforce development system. The American Society for Training and Development estimates that U.S. employers spent \$134 billion on employee learning and development in 2007. A large portion of this training, however, is given to higher earning employees, not lower wage employees. Many employers do not appropriately value the impact of human capital investments on their bottom line. Many lack knowledge about or have negative perceptions of the public workforce system. Developing methods to induce demand for increased investments in low-skilled workers could provide incentives to employers to develop these low-skilled workers and, thereby, have a dramatic effect on the workforce system.

A COORDINATED JOB STRATEGY

To effectively address the economic challenges facing most communities in the United States means going beyond economic development and workforce development; it means creating a coordinated and effective jobs strategy. Some of the challenges and opportunities Surdna might consider as it develops its strategy in this area include:

1. **Breaking Down Silos.** The most effective means for creating a sustainable and vital regional economy is to develop a comprehensive and **holistic** approach. To successfully adopt this approach, one must break down traditional silos—the focus has to be on building a pipeline of qualified workers, addressing the competitive challenges of businesses, supporting innovation and the research and development capacity in the region, and ensuring that the regional infrastructure, such as the transportation system, is adequate.
2. **Integrated Cluster Strategies.** Currently, the economic development world is focusing on “cluster development,” while the workforce development world is focusing on “sector development.” Both want to address the needs of employers in the same industry, but they are working on parallel tracks. In addition, sometimes the economic development agencies at both the city and state levels are developing and implementing cluster strategies, with minimal collaboration. The result is a fragmented system in which key businesses might be approached about different competitiveness issues by multiple agencies and institutions. Creating an integrated approach that involves both economic development and workforce development and engages the state, the region, and the cities may lead to more effective efforts to build strong regional clusters.
3. **Thinking about Scale.** While small “boutique” and innovative projects or programs may improve the economic lives of some low- and moderate-income individuals, they do little to address the major economic challenges of many communities, particularly the weak market cities. Effective training programs that serve 100 or 200 residents a year, or social ventures that create 50 jobs, are important. The key, however, is to bring these efforts to scale.
4. **Taking a Long-term Approach.** Rebuilding a regional economy takes a long time. Progress is measured in decades, not years. Efforts to invest in a region’s economic assets may not have short-term direct impacts on the lives of low- and moderate-income residents, but may, in the long-term, provide pathways to an environmentally sustainable and more equitable economy.

5. **Ensuring Economic Development and Workforce Strategies Promote Equity and Sustainability.**

While the challenges of the work are many, there is a real opportunity, in part because of the economic downturn, to advance many of these issues. The addition of the Surdna Foundation into this field can provide an important new voice that fosters new innovative strategies and tools designed to help build sustainable economic assets, nurture the environment for job growth, and target this growth to the many low- and moderate-income individuals looking for new economic opportunities.

The U.S. economy is currently facing a series of challenges that will likely last for the next several years. The recession, the problems with our financial institutions, and the need to respond to global climate change, will present formidable obstacles to our economic recovery and a more resilient economy. This will mean ongoing problems in our competitiveness, especially in our manufacturing base, fiscal challenges for our state and local governments, and continued job losses. Although there are policies, programs, and organizations in place to deal with our national economic challenges, the scale of the problems puts enormous pressure on our economic and workforce development systems. These “systems” are all straining under the weight of our economic difficulties.

National foundations, like Surdna, can make a significant difference to responding to these challenges, with the right kind of strategic investments. Foundations can contribute to the work of rebuilding our regional economies and making them more economically and environmentally sustainable. They can also play an important role in helping low- and moderate-income individuals secure the training and education they need to participate fully in the 21st century economy.

ENDNOTES

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- ¹ Sherman, Arloc. *Safety Net Effective at Fighting Poverty but has Weakened for the Very Poorest*. Paper prepared for the Center on Budget and Policy Priorities, July 6, 2009.
- ² In practice, many states and cities are involved in economic development primarily for much more narrow fiscal goals. The focus of this memo, however, is on the broader definition of economic development.
- ³ There is considerable activity at the state and local levels in promoting the “creative economy” and the “green economy.” Both of these areas are ones in which there is considerable innovation as well as applicability to the Surdna Foundation’s new mission.
- ⁴ *Reach Higher, America: Overcoming the Crisis in the U.S. Workforce*, Report of the National Commission on Adult Literacy, June, 2008.
- ⁵ *Left Behind in America: The Nation’s Dropout Crisis*, Center for Labor Market Studies and Chicago Alternative Schools, April 2009.
- ⁶ Attewell, Paul, David Lavin, Thurston Domina, and Tania Levey. 2006. “New Evidence on College Remediation.” *Journal of Higher Education*. Vol. 77, No. 5, September/October 2006.
- ⁷ [The National Center for Higher Education Management Systems](#), 2009 (2007 data).
- ⁸ Boston Private Industry Council. *Getting to the Finish Line*. 2008.
- ⁹ Georgetown University, Center for Education and the Workforce, data from upcoming report, *Jobs and Education Requirements through 2018*, <http://cew.georgetown.edu/research/jobs/79012.html>
- ¹⁰ U.S. Bureau of Labor Statistics, Current Population Survey. http://www.bls.gov/emp/ep_chart_001.txt
- ¹¹ The Business Roundtable, *Getting Ahead – Staying Ahead: Helping America’s Workforce Succeed in the 21st Century*, December 2009.
- ¹² U.S. Bureau of Labor Statistics, *Labor Force Characteristics of Foreign-Born Workers Summary*, March 26th, 2009.
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- ¹⁴ Carnevale, Anthony P., Jeff Strohl, and Nicole Smith, *Help Wanted: Postsecondary Education and Training Required, New Directions for Community Colleges*, no. 146, Summer 2009:25.